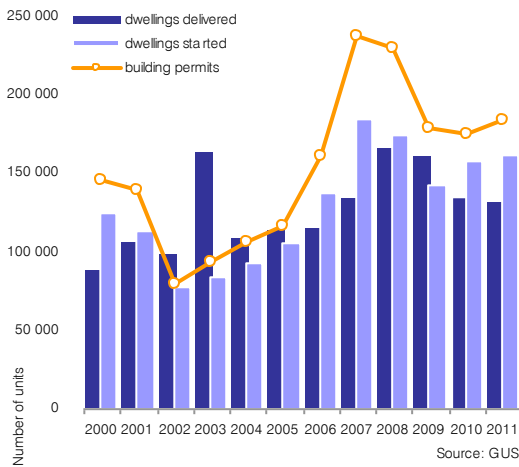


2011 was a year of stable sales and, as compared to 2010, brought a growing number of transactions in the primary residential market.

At the same time, the gradually decreasing number of new projects launched by developers translated into a stabilized offer in the second half of the year.



Statistics of residential construction in Poland



Residential market in Poland in the end of 2011

The results of a project monitoring study conducted by REAS at the end of Q4 allow to summarize the year 2011 in the residential market. Last year saw an increase of the total number of new residential units sold in the six largest residential markets in Poland (Warsaw, Krakow, Wroclaw, the Tri-City, Poznań and Łódź), though the number of residential units launched for sale increased even faster. As expected, we observed a price drop of units launched for sale as well as those sold and on offer. As a result, the value of new transactions was lower than the one noted in the year 2008, despite the fact that the number of transactions concluded during the previous 12 months was the highest since the boom period in the year 2007.

It was also a year of a gradual deterioration of mortgage lending conditions for the key target groups, i.e. young families. Banks significantly limited the share of new loans denominated in foreign currencies. Growing inflation together with a deposit war resulted in an increase of interest rates for mortgage loans in PLN. At the beginning of September, the rules of the "Family on Its Own" program changed considerably, while in mid-September the Polish Senate decided on the final form of the Developers' Clients Protection Act.

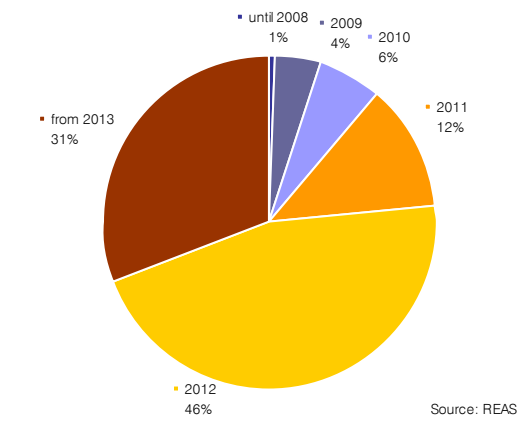
According to preliminary estimates, the total value and number of newly granted mortgage loans in 2011 were comparable with 2010 (ca. PLN 48 billion). Despite satisfactory results noted in the previous year, developers, banks and potential buyers are concerned about the future of the residential market.

were granted for more than 81,700 dwellings and increased by 19.2% in comparison with the previous year. As a result, 2011 brought about a combination of several phenomena: introducing units to the market whose construction has officially started earlier; launching sales directly after obtaining a building permit prior to the official construction start; and finally, a new concentration of developers' activity in the largest agglomerations and limited operations in smaller markets.

Despite a fairly good and regular sales level, the offer volume calculated for the six analyzed agglomerations in the final quarter of 2011 remained at a level of more than 48,000 residential units and during the previous 12 months increased by more than 25%. The offer is dominated by dwellings under construction, which constitute over 77% of units offered for sale by developers. However in comparison with the previous quarter, the number of completed and unsold units increased by close to 11%, and during the 12 previous months – by more than 11%. At the end of December, Warsaw offered slightly over 4,000 completed and unsold dwellings, slightly more than in the previous quarter, however the total offering in this category of units in the six agglomerations was close to 10,500.

Therefore the supply level is high, though when analyzing the current offering level, one needs to bear in mind the effects of limited developers' operations in 2009. Consequently, in 2011 developers and housing co-operatives delivered slightly more than 54,000 dwellings and houses throughout the country, almost equaling the result from 2007, when developers completed slightly over 50,000 units. Therefore the current increase in construction operations can be treated as a compensation for the previous drop and a response to the "supply gap" in the medium-term perspective.

Structure of the market offer according to the projects' delivery date declared by the developer (aggregated data for the markets in Warsaw, Krakow, Wroclaw, Tri-City, Poznań and Łódź).



Supply

According to the results of a market monitoring study conducted by REAS in Q4 2011, the number of residential units launched to the market in six major Polish agglomerations slightly exceeded 7,300, i.e. lower by 17.5% than in the previous quarter and lower by 14% than the 12 months earlier. Throughout the year, 37,500 dwellings were launched for sale, i.e. 21% more than in 2010. Only the record-breaking year 2007 saw the launch of a larger number of residential units in the six analyzed agglomerations.

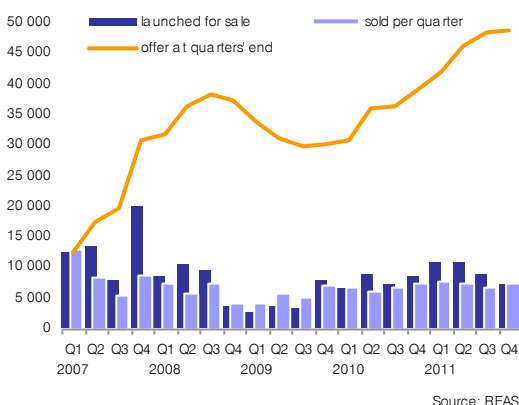
These data are generally consistent with the results published by GUS regarding the number of residential units started by developers and the number of permitted dwellings in 2011. While the first indicator amounted to more than 64,700 and increased year on year by only 2.7%, building permits

Demand and prices

In Q4 2011, the total number of transactions (preliminary contracts) calculated for the six analyzed markets increased in comparison with Q3 by more than 8% and amounted to almost 7,400. While the fourth quarter of the year usually brings very good sales results, one needs to bear in mind that this was the first quarter after the introduction of changes in the "Family on Its Own" program, which had a negative impact on demand. Looking from that perspective, the sales results may be treated as satisfactory.

Throughout 2011, approximately 29,700 residential units were sold, 7% more than in 2010. A higher sales level in the six analyzed

Residential units launched for sale and sold quarterly vs. the volume of the offer at quarters' end (aggregated data for the markets in Warsaw, Krakow, Wroclaw, Tri-City, Poznań and Łódź)





agglomerations was noted only in the record-breaking year 2007, when the demand was strongly driven by CHF denominated mortgage loans. It is worth to remember that a considerable part of units sold in the boom period were purchased for investment purposes and returned to the market in 2009 after buyers cancelled their preliminary sales contracts. In 2011, investment demand was insignificant, and the vast majority of buyers made conscious purchase decisions in order to satisfy their own housing needs. This comparison shows that, in terms of the number of transactions, the sales level noted in the previous year should be considered a success.

At the same time, one needs to point out that the market climate was changing during the year. While in the first six months good sales results encouraged some developers to slightly increase prices and launch more expensive projects for sale, in the second half of the year the market became much more competitive and price reductions were accompanied by additional special offers, such as a free parking spaces or kitchen furnishings.

The sales intensity in the six markets in Q4 2011, calculated as the ratio of units sold during the quarter and the offer volume in the beginning of the quarter, amounted to 15%. Thus, it was higher by one percentage point than in the previous quarter. For the first time in six quarters, the number of sold units was at the level of the number of dwellings launched for sale, which resulted in a stabilization of the market offer. However, it is hard to tell whether this is the beginning of a new trend or a temporary halt in the launching new projects for sale.

It is also worth to consider the offer volume in comparison with sales levels during the previous four quarters. Generally speaking, this index ranges from 133% in the case of the Tri-City (i.e. the market offer constitutes 1.33 of the annual sales) to close to 200% in Wrocław, where at the current sales level, it would take almost two years to sell all the units offered in the market. In comparison with the results noted 6 months earlier, the indices in specific cities are much more diverse. The most favorable situation is noted in the Tri-City, where developers managed to keep supply at a level that ensures smooth sales, but remaining under 140% of sales in the four previous quarters. The condition of the Wrocław market is most alarming, since six months earlier the discussed index amounted to 158%.

The increased number of transactions in comparison with the previous year resulted predominantly from adjusting the supply to buyers' expectations, as well as from price

reductions and promotional offers. In the majority of cities the average prices, both calculated for units newly launched for sale and those exposed in the market, decreased nominally, and the drop calculated for the six cities amounted to ca. 5.7%. Considering that the inflation rate is close to 5%, this means a real price decrease.

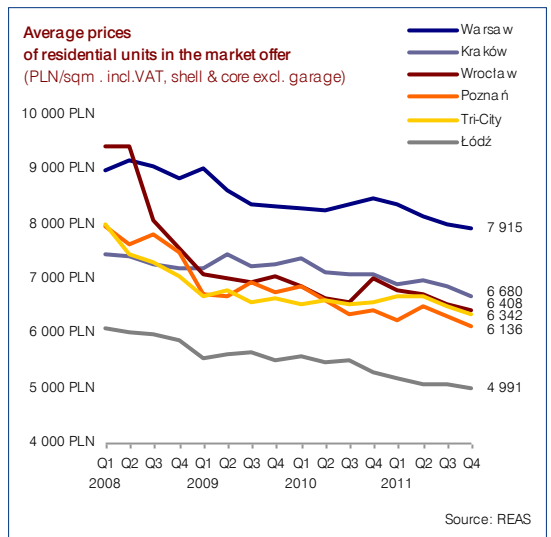
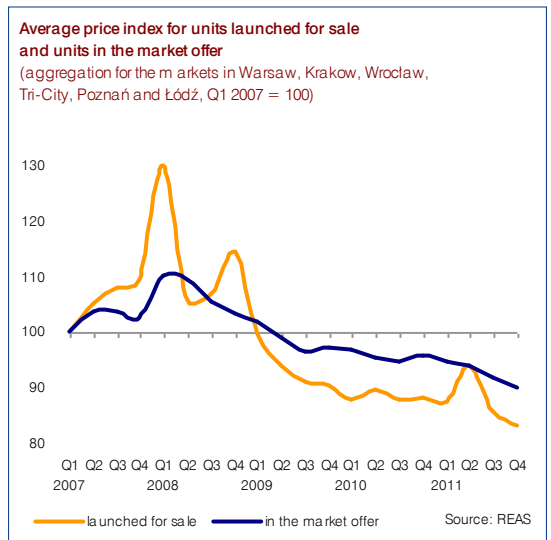
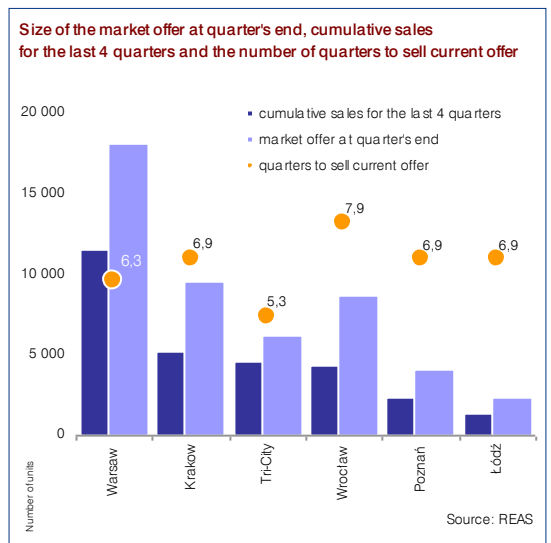
As a result, despite a considerable increase in the number of transactions, the value of contracts concluded throughout the year noted only a slight increase. Calculated for the six markets, the increase amounted to ca. 3.6%: in the case of Warsaw and Wrocław it was close to 3-4%, in the Tri-City and Krakow it reached 9%, while in Poznań and Łódź the market value decreased considerably.

Nevertheless, sales in an average residential project have been decreasing quarter on quarter for a while now. This translates into a diverse situation of individual development companies: some note sales at a stable level, while others have to cope with a considerable drop in sales, causing liquidity problems. The market is becoming increasingly competitive, therefore we can expect further price wars and more flexible payment conditions for buyers.

REAS commentary and forecast

The relationship between demand and supply in the nearest future will be influenced by a number of factors which are difficult to predict:

- Passing the so-called developers' act – before it comes into effect – may result in a temporary drop in residential sales – suspended purchase decisions may translate into increased sales in the second half of the year. In terms of supply, we might witness an increased number of projects launched for sale until April 28th, reinforced by concerns about unfavorable changes in banks' lending policy.
- Economic slowdown, inhibited growth of wages and higher effective taxation may result in a deteriorated public mood.
- Accessibility of mortgage loans for buyers and lending scale, resulting from the decreasing creditworthiness of some households, potential changes in the lending policy of banks wishing to limit the share of residential loans in their portfolio, and potential borrowers' unreadiness for incurring debt due to the uncertain situation in the labor market.
- Like today, some part of the potential demand, i.e. households with CHF mortgage loans, will remain frozen and



Selected REAS' Clients



inactive. However, at the end of 2012, we may witness a mobilization both on the part of buyers and on the part of banks, seeking to make use of the possibilities offered within the "Family on Its Own" program before it is abolished at the end of the year.

- Psychological factors – including potential buyers' reactions to the predictions of further price drops caused by considerable supply or, on the contrary, predictions of price increases due to the implementation of mechanisms required under the developers' act.

The analysis of hard facts is hardly optimistic. However, some more optimistic tendencies can derive from less clear-cut criteria. The current phase of the crisis is dramatically different from the situation witnessed at the end of 2008, when the consequences of the crisis came as a surprise to banks and developers alike. Both groups have been preparing themselves for difficulties for several quarters now. The majority of developers are implementing and preparing new projects, better adjusted to the clients' needs and possibilities. Development companies are also stronger after surviving the market crash from 2009. Aware of the need to flexibly react to demand changes, they are staging their projects. They also know that the banks are not interested in

developers' bankruptcy – on the contrary, banks learned to react more flexibly to the crisis as well.

Apart from official creditworthiness calculations, in predicting the demand scale, one also needs to bear in mind the irregular and unregistered incomes of potential residential buyers (grey economy), which may account for a serious part of the own contribution requested by banks and help in the purchase decision making process. Another factor supporting demand would be price reductions, less painful for developers if the workmanship costs decrease considerably. This should be facilitated by a drop in commissions from other building sectors and lower demand for building materials on a global scale. However, it seems more likely that the abovementioned reduction will be neutralized by the increase in costs resulting from implementing requirements of the developers' act. The high number of exposed units may also facilitate purchase decisions, as it will probably be easier for buyers to find residential units meeting their expectations.

To sum up, the Polish residential market yet again found itself in a situation, when market participants have significantly less influence on its future than other unrelated and hardly predictable factors.

Key Services

- Market research, analysis & forecasting
- Competition monitoring & analysis
- Consultancy regarding Developer Bill
- Highest & Best Use studies
- Development consultancy, location analysis, recommendations regarding the project-mix and functionality of units
- Guidelines for architects and review of designs
- Marketing & sales consultancy
- Property valuations (RICS, TEGOVA, USPAP, IVSC)
- Business plans & financial feasibility studies
- Capital raising & search for equity partners
- Investment sites disposal & acquisition

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